



**National Bank of Rwanda**  
**Banque Nationale du Rwanda**

## **MONETARY POLICY COMMITTEE**

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### **CURRENT ECONOMIC DEVELOPMENTS AND MONETARY POLICY ORIENTATION BY END SEPTEMBER 2011**

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8<sup>TH</sup> JULY, 2011

## **I. OVERVIEW**

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*Despite recent pressures from oil and non-oil commodity prices on international and regional markets, inflation in Rwanda remains moderate. The annual headline inflation which was 0.23 percent in December 2010 increased to 4.11 percent in March 2011 and 4.98 percent in April, before slowing down to 4.54 percent in May. This level of inflation does not pose a threat to Rwanda Macroeconomic Stability.*

*Overall price stability is expected to be maintained in third quarter 2011 due to expected good performance in food production, excellent coordination in implementation monetary and fiscal policies and sustained stability of the Rwandan Franc. In addition the recent Government policy to reduce taxes on fuel and the current improvement in post harvest management will help to sustain price stability.*

*With regards to economic performance, developments in leading economic indicators during the first half of 2011 show that economic activities performed much better than initially expected. More specifically, export sector has registered impressive performance with an increase of 47.3 percent during the first 5 months of 2011 compared to the same period in 2010.*

*Regarding the exchange rate policy, during the third quarter of 2011 the MPC remains committed to maintain a market driven exchange rate. The BNR will only intervene to smoothen the exchange rate volatility.*

*After analyzing the current international and national economic environment, banking liquidity conditions and the outlook for the third Quarter 2011, the MPC has considered the current level of Key Repo Rate (6%) to be consistent with the Central Bank's objective of ensuring price stability while stimulating lending to the economy and maintaining interest rates positive in real terms.*

*This document provides in details underlying economic and financial fundamentals behind this MPC decision to keep unchanged the BNR policy rate during the third quarter 2011.*

## II. CURRENT ECONOMIC SITUATION

### II.1 GLOBAL ECONOMIC ENVIRONMENT

**G**lobal economic growth expanding at a sustainable rate despite the recent decline in survey indicators.

#### a. Economic growth

The world economic growth continues to expand at a sustainable rate on improved financial conditions despite the recent decline in recent leading economic indicators. Global manufacturing Purchasing Managers' Index for output which stood at 59.5 in February reduced to 54.7 in March 2011 on political concerns in Arab countries and following the earthquake in Japan. World trade in value increased by 22% on annual basis in the first quarter 2011 and global leading economic index has improved especially in OECD countries. However, disparities in recovery remain among regions and countries. While emerging economies are moving close to full capacity, developed countries are still facing high unemployment rates. These unfavorable developments may weigh on the pace of the growth through oil and non-oil commodity prices leading to a global real GDP growth projected at 4.4% in 2011 from 5% in 2010.

In developed countries, latest indicators are pointing to continuous economic expansion. In USA, the real GDP is projected at 3.3% in the second quarter 2011 from 1.8% in the previous quarter and the economic sentiment indicator was stable at 46.6 in May as in April after 43.2 in March 2011 reflecting increasing positive sentiment, while in the Euro Zone, economic sentiment index declined, the consumer confidence index in the Euro area improved by 16.4% in May standing at -9.7 after -11.6 in April. In Japan, the economy is projected to remain in a recession in the second quarter (-2.5%) like it was in the first quarter 2011 (-3.7%) led by a monthly decline of 15.3% in industrial production, after earthquake and Tsunami that hit Japan. However, latest surveys show that business and consumer sentiment have been deteriorating until April. Consumer index rose to 34.8 in May from 33.4 in April 2011 despite the effects of the earthquake.

In the emerging and developing economies, the economic activity strongly recovered as fixed investment and private consumption grew significantly but also due to accommodative policy measures and following resurgent capital inflows. These economies grew by 7.3% in 2010 and are expected to grow on average by 6.5% end 2011. In Sub-Saharan Africa, economic growth is expected to reach 5.5 end 2011 % from 5% in 2010.

#### b. Inflation and Commodity Prices

In developed countries as well as in emerging economies, inflationary pressures have been upward on increasing energy and non-energy commodity prices. In May, annual inflation rose to 3.6% in USA, 0.3% in Japan, 2.7% in Euro area and 4.5% in the United Kingdom after 3.2%, 0.3%, 2.8% and 4.5 % in April respectively.

In the EAC region, drawn by increase in oil and food prices, inflation continued to rise during the first half of 2011. In May 2011, on annual basis, it hit 16.0% in Uganda, 12.95% in Kenya, 9.7% in Tanzania, 4.5% in Rwanda and 7.5% in Burundi after 3.11%, 4.51%, -3.58%, 0.23% and 4.88% in December 2010 respectively.

Concerning commodity markets, following the selloff at the beginning of the month on worries about the global economic growth and oil demand and also expectations of tighter markets in the second half of the year, oil prices fell in May. Brent crude oil prices per barrel declined by 7%, from USD 123.07 in April to 114.46 in May. However, in the near future, oil demand is expected to significantly increase as OPEP meeting on 8th, June 2011 failed to increase oil supply. Future contracts for December 2012 will be trading at around USD 114.2 per barrel.

In low and middle income countries, energy prices dropped by 6.47% in May after had increased by 6.49% in April 2011. Non energy commodity prices fell by 4.63%, of which agriculture commodity prices (-5.44%). Prices declined by 1.51% for food commodities and by 0.48% for grains.

### **c. Financial Markets**

In the financial markets, Central banks in developed countries maintained their policy rates unchanged and low enough to boost economic recovery except the European Central Bank which increased its key rate by 1.25% on 7th, April 2011 after maintaining it unchanged at historically low levels for almost two years. In the USA and Japan monetary policy rates were stable at 0.25% and 0.1% respectively. In May, three month rates were slightly down in USA (0.24% after 0.28% in April), at 0.16% in Japan and 1.41% in the Euro area.

Long term interest rates rose in leading economies in the period from December 2010. In May 2011, Ten year Government bonds declined in the USA, Euro Area and Japan in May. Ten year Government bond rate reduced to 3.06% from 3.55% in USA, to 3.02% after 3.55% in Euro Area and 1.17% from 1.26% in Japan respectively in May and April 2011. Long term interest rates decline in all three countries reflecting downbeat economic expectations in the euro area and the United States.

With regard to exchange market, the dollar appreciated against the Euro (3.4%), GBP (1.8%) as well as the Japanese Yen (0.2%) in May 2011, after had depreciated in April versus the Euro and GDP. Foreign exchange markets experienced high volatility following the Japanese earthquake in March but also due to renew concerns about debt crisis in Europe.

Exchange rate developments have been responsive to movements in interest rate differentials among major economic blocks as well as to market perceptions of global financial market risks.

## II.2 NATIONAL ECONOMIC PERFORMANCE

**E**conomic performance for the current year to be beyond the initial projections.

### a. Production

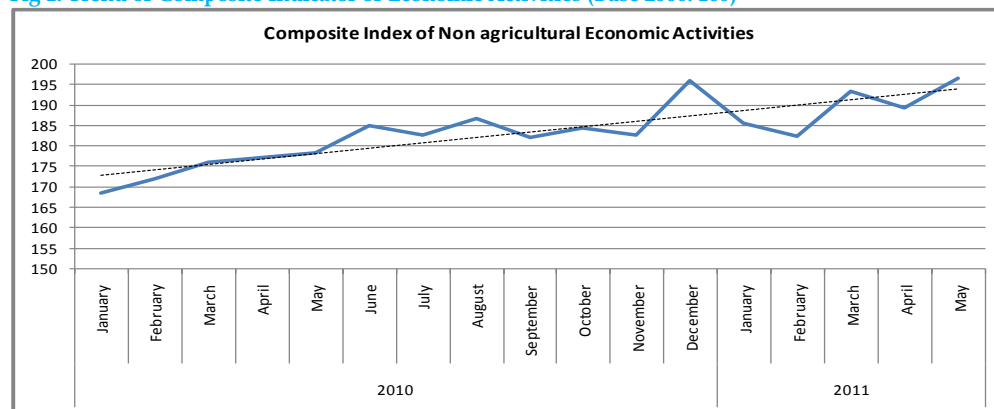
The Rwanda real GDP grew by 7.5% in 2010 against 6.1% in 2009 following mainly the recovery of services and industry sectors which recorded respectively increase of 9.6% and 8.4% of the value added. Agriculture sector also grew by 5% compared to 7.7% the previous year.

The country has started the year 2011 keeping momentum of economic recovery with continuing improvement in all key economic activities. In that line, economic growth was initially expected to decline marginally to about 7% from the 7.5% achieved in 2010, following expected adverse impact of rising fuel and food prices. However, according to current developments in key economic indicators of economic activities (composite index and total turnovers of industry and service sectors), the economic performance for the current year would be far beyond the initial projections. Important domestic investment projects are expected to begin to have an impact on the country’s economic performance in the medium term, and in this regard real GDP is projected to grow on average by about 7.2% per annum over the five year period (2011-2015).

For Non-agriculture activities, as evidenced by the Composite Indicator of Economic Activities (CIEA) and the total turnovers registered by large companies, Industry and Services sectors have been performing better during the first five months of 2011 compared to the corresponding period of the previous year, showing a continuity of the economic recovery recorded since 2010.

The Composite Indicator of Non Agricultural Economic Activities (CIEA) shows a nominal annual increase of 10.2% in May 2011 against 8.0% in May 2010, and this recovery process indicates significant improvement in economic activities.

Fig 1: Trend of Composite Indicator of Economic Activities (Base 2006: 100)



Source: Research and Policy Analysis Department

The total turnovers registered by large companies in the industry and service sectors, rose by 24.1.1% in Jan.-May 2011 compared to the same

period in 2010. Total sales increased from RWF 540.0 to 670.6 billion, of which industry sector rose by 37.0% attributed to the high turnovers in the construction industry (+75.1%), mining industry (51.5%), and manufacturing industries (+20.7%) and energy sector (19.3%), while service sector grew by 19.2% driven by petroleum companies (+54%), garage services (+29.6%) and banks & insurance services (+20.0%).

**b. External sector**

With regard to the external trade, from January-May 2011, exports value increased by 47.3% compared to the same period of 2010, while its volume also rose by 56.0%. This is attributed to the better performance if tea in both value and volume increasing by 7.3% and 2.6% respectively, driven by high international prices, from an average of 2.65 USD/kg in Jan.-May 2010 to an average of 2.78 USD/Kg in Jan.-May 2011. Coffee exports also performed well, increasing by 6.2% in value as a result of better coffee season, while its volume decreased by 13.7%. The better performance also came from minerals and non-traditional exports. Performance in the mining sector was attributed to high prices mainly tin from an average of USD 9.1/Kg in Jan.-May 2010 to USD 16.3/Kg in Jan.-May 2011.

**Table 1: Export developments (Value in million of USD, Volume in tons)**

	Jan- May 2010		Jan-May 2011		% change	
	Volume	Value	Volume	Value	Volume	Value
<b>EXPORTS, total</b>	37 489.7	83.2	58 497.6	122.6	56.0	47.3
Coffee	1 998.5	5.1	1 724.2	5.4	-13.7	6.2
Tea	10 562.7	28.0	10 833.2	30.1	2.6	7.3
Tin	1 300.5	11.9	2 169.0	35.3	66.8	197.9
Coltan	344.0	7.0	351.6	11.9	2.2	70.4
Wolfram	272.8	1.9	254.1	2.9	-6.8	55.4
Hides and Skins	999.8	0.9	2 159.8	2.6	116.0	203.9
Pyrethrum	5.1	1.1	14.1	3.3	178.3	194.2
Re-exports	2 777.4	14.8	5 803.4	13.4	108.9	-9.4
Other export products	19 229.0	12.7	35 188.3	17.8	83.0	40.3
<b>IMPORTS, total</b>	453.4	538.5	500.6	607.8	10.4	12.9
Consumer goods	191.4	171.0	161.4	181.4	-15.7	6.1
Capital goods	15.9	140.8	19.9	142.6	24.9	1.3
Intermediate goods	168.6	145.0	230.0	174.0	36.4	20.0
Energy and lubricants	77.4	81.7	89.3	109.8	15.4	34.4

Source: NBR, Statistics Department

Imports value increased by 12.9%, while volume slightly increased by 10.4%. This trend is mainly due to the increase in value of energy and lubricants (+34.4%) and intermediary goods (+20.0%). Yet, imported fuel rose by 36.5% in value and 15.6% in volume. Imports of fertilizers have continued to increase sensitively in both value and volume by 404.3% and 287.8% respectively, following the Government policy to promote the use of fertilizers in agriculture sector so as to increase domestic production. Import of cement has significantly increased by 54% in volume and 48% in value end May 2011, following high demand of construction sector coupled to an important decrease (22.6%) of production of CIMERWA during the first five months of 2011 compared to the same period of 2010.

### II.3 INFLATION DEVELOPMENTS

**Headline inflation has been increasing for the first four months of 2011 being driven mainly by food prices.**

#### a. Current trend

From the lowest inflation levels of 2010 (0.23% in December), the lowest in the last 10 years, the first four months of 2011 have been marked by hiking inflation pressures, increasing at an increasing rate from 1.1% in January to 4.96% in April, but in May these pressures have lowered the pace by decelerating to 4.5

The rise in the CPI of May 2011 (+4.54%) is attributed primarily to the increase in food prices (+17.34%) mainly due to the increase in fish prices as a big portion is imported mostly from neighboring countries, where food prices continue to escalate, and cereal prices (+7.75%) following supply shortage evidenced by a significant decline in cereal imports that couldn't be offset by local production. Secondly, other main contributors are transports (+9.97%), Housing and Energy (+2.76%) and Education (0.66%).

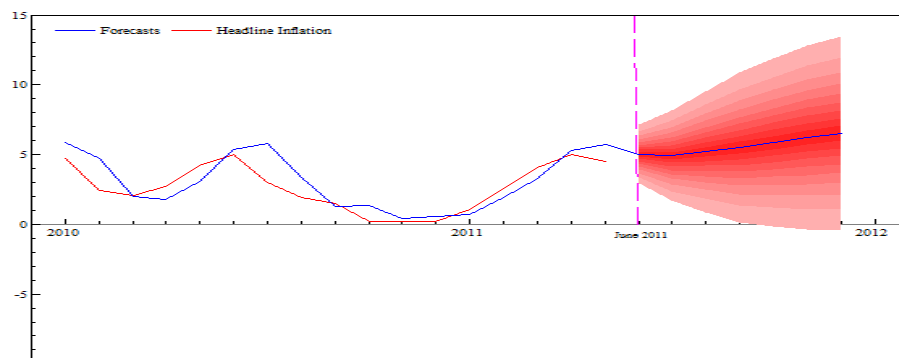
As a result of good harvest, food prices started declining in May 2011 (-0.92%), attributed to prices of vegetables (-5.64%) and meat (-0.77%). During the first half of the year, energy prices have been rising due the increasing international oil prices. Since January, fuel prices have increased by 14.5%, from a pump price of Rwf 887 to Rwf 1 060 per liter in May 2011.

On annual change, the price index for locally produced goods increased by 3.95% in May from 3.86% in March, after a decline of 0.07% in December 2010, while prices for imported goods rose from 5.10% in March to 6.92% in May 2011.

#### b. Inflation forecasts

According to the surveys for the first and second fortnight of March 2011, inflation is likely to continue its increasing trend in the coming months. International oil prices are projected to increase by more than 20% in 2011 and this is expected to exert inflation pressure in Rwanda through the increase of oil prices in domestic market and its impact on the cost of transport. Thus, taking into account these exogenous shocks, year-on-year inflation is projected at 4.9% by July, 5.2% in August, 5.5% September and 7.5% in December, from 0.2% in December 2010.

Fig 2: Inflation developments and forecasts (in %).



### III. MONETARY SECTOR DEVELOPMENTS

#### III.1 MONETARY POLICY

*Despite higher pressures, the overall inflation still moderate to continue stimulating the lending to the economy as the Key Repo Rate has been kept unchanged at 6%.*

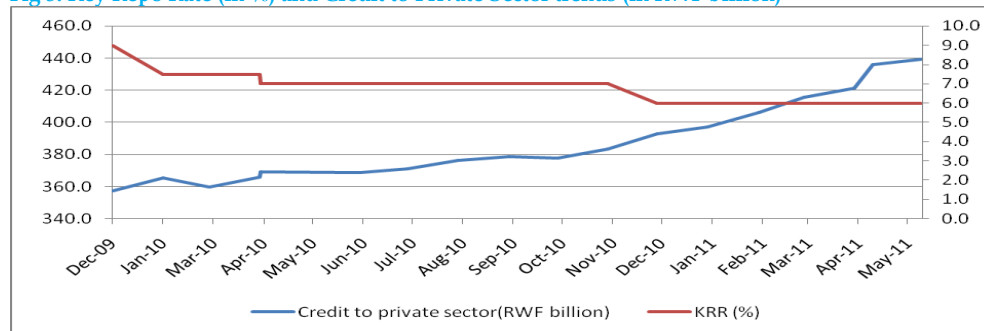
For this second Quarter 2011, NBR has maintained its accommodative monetary policy implemented in 2010 focusing on supporting the gradual economic recovery by stimulating the lending to the economy, as far as underlying inflationary pressures remained moderate and real interest rates positive to continue to stimulate domestic savings mobilization.

This policy has been implemented following the Monetary Policy Committee (MPC) decisions to maintain the central bank policy rate low. The key objective was to progressively releasing more liquidity in the banking system by keeping the cost of funds for banks at low level and limits their incentives to invest on money market. Thus, Key Repo Rate (KRR) has been kept unchanged to 6% for the second quarter 2011 from successively 7.5% in March 2010, 7% in June 2010 and 9% in December 2009.

It is worth to recall prior to the above measure, the Central Bank and the Government undertook important policy responses to address the liquidity crunch and credit squeeze occurred in 2009. These measures included the downward review of the required reserve ratio from 8% to 5%, not to roll over matured Government T-bills and introduction of liquidity facilities.

As a result, the banking system has been experiencing significant improvement in liquidity situation allowing substantial increase in credit to the economy.

Fig 3: Key Repo Rate (in %) and Credit to Private Sector trends (in RWF billion)



Source: Research and Policy Analysis Department

#### III. 2 MONEY SUPPLY AND DEMAND

*Significant Money Supply expansion emanating from the domestic credit.*

Between December 2010 and May 2011, Broad Money (M3) increased by 8.4% from 1.6% in the first Quarter. The Net Foreign Assets (NFA) of the banking system declined by 7.1% in May 2011, contributing negatively by 8.8% to the change in M3, while the contribution of the Net Domestic Assets has been 10.5%. In particular, developments in NFA have been following the external budget support disbursements which have recorded delays during the first half of the year.

On money demand side, Currency in circulation recorded an annual

increase of 25.5% by end May 2011 from 22.7% in March while it was 17.5% in December 2010. The current trend of currency in circulation is driven by dynamic economic activities, mainly the coffee season; some Government projects injecting money in rural area; cash utilization in increasing informal cross border trade and low opportunity cost for holding cash. Deposits in the banking sector have been significantly increasing to 26.5% in May 2011 on annual basis from 17.4% in December 2010. This increase is mainly attributed to demand deposit which increased by 34.1% and deposit in forex by 27.9%, against 17.8% for time deposits.

Table 2: Monetary survey by end May 2011 (end period, in RWF billion)

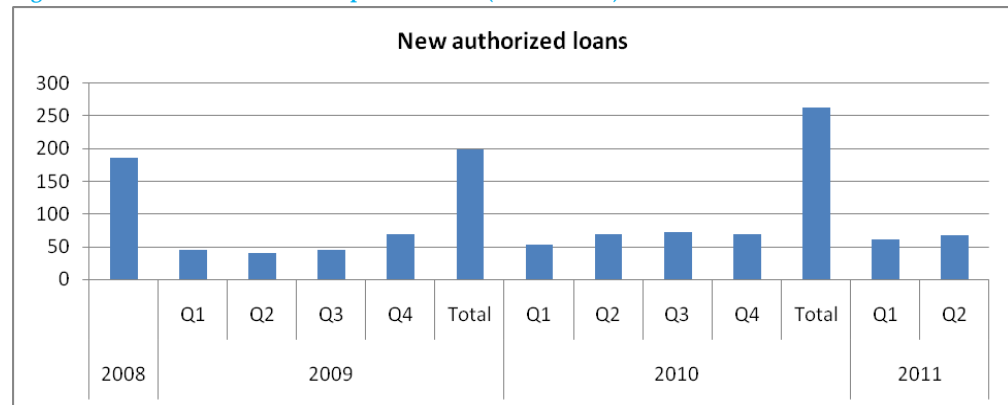
	2010	2011		Change (%)	
	Dec	Mar	May	May-11/Dec-10	May-
<b>Net Foreign Asset</b>	<b>518.9</b>	<b>464.4</b>	<b>482</b>	<b>-7.1</b>	<b>20</b>
BNR	414.9	353.5	392	-5.5	20.1
Commercial Banks	104	110.9	90	-13.5	19.8
<b>Net domestic assets</b>	<b>97</b>	<b>161.5</b>	<b>185.6</b>	<b>91.3</b>	<b>46.4</b>
Domestic credit	268.2	320.1	356.3	32.8	30.7
Government net	-131.3	-101.8	-83.1	-36.7	14
Autonomous bodies	-0.8	-0.6	-0.8	0	-57.9
Public Enterprises	3.2	1.1	1	-68.8	-64.5
<b>Private sector</b>	<b>397.1</b>	<b>421.3</b>	<b>439.2</b>	<b>10.6</b>	<b>19.2</b>
Other items net	-171.2	-158.6	-170.7	-0.3	17
<b>Broad money M3</b>	<b>615.9</b>	<b>625.9</b>	<b>667.6</b>	<b>8.4</b>	<b>26.3</b>
Currency in circulation	90.5	83.9	94.1	4	25.5
Deposits	525.4	542	573.5	9.1	26.5
o/w: demand deposits	240.1	238.6	262.3	9.2	34.1
Time deposits	186.1	187.6	196	5.3	17.8
Foreign currency	99.2	115.8	116.8	17.8	27.9

Source: Statistics Department

Domestic Credit has been driven by the Net Credit to Government and the Credit to Private Sector, showing a sustained trend in credit markets improvement observed since 2010, after the credit squeeze occurred in 2009 following the liquidity crunch.

New authorized loans by the banking system have been significantly increasing to respond to higher demand for credit in the context of improved economic dynamism. In 2010, banks authorized new loans amounting for RWF 262.0 billion of which RWF 121.9 billion were authorized in the first half of the year. During the same period of the year 2011, banks kept momentum as new authorized loans stood at RWF 127.4 billion exceeding new loans authorized in the first half of the last year 2010. The new authorized loans continued to be granted mainly to Commerce, Restaurants and Hotels, public works and building industry and manufacturing industries with 38.8%, 25.3% and 11.4% respectively. However, agriculture sector received only 2.7% of new authorized loans.

Fig 3: New authorized loans to the private sector (RWF billion)



Source: Financial Stability Directorate

### III.3 BANKING SYSTEM LIQUIDITY CONDITIONS

*Sustained improvement giving more confidence to banks in treasury management and lending to the economy.*

The banking system liquidity has been significantly improving, hence giving more confidence to banks in treasury management, while continuing to invest in short term instruments. The increase in banking system liquidity is also evidenced by new loans authorized to the economy.

By June 30, 2011, Repos continued to dominate the money market operations with 55.8% against 44.2% for t-bills. In line with the Government long term deposit facility (52%) were used mainly for financing mortgage and 40% for equipments. It is worth to notice important increase in Government borrowing from the banking system linked with the delays in external budget disbursements.

Table 3: Outstanding of net borrowing by BNR and Government (RWF million)

	Dec-09			Dec-10			30 <sup>th</sup> June 2011		
	Monetary	Fiscal	Total	Monetary	Fiscal	Total	Monetary	Fiscal	Total
REPOS (1 to 14 days)	45.0	-	45.0	67.9	12.0	79.9	108.8	-	100.8
T-bills (28 to 364 days)	29.3	-	29.3	1.5	54.5	56.0	17.6	78.1	79.9
<b>Total (1)</b>	<b>74.2</b>	<b>-</b>	<b>74.2</b>	<b>69.4</b>	<b>66.5</b>	<b>135.9</b>	<b>102.6</b>	<b>78.1</b>	<b>180.7</b>
T-bonds (2)	-	14.3	14.3	-	15.0	15.0	-	12.5	12.5
Liquidity facility (3)	8.6	6.8	15.4	8.0	13.0	21.0	5.1	19.2	24.3
3 to 12 months	8.6	-	8.6	8.0	-	8.0	5.1	-	5.1
5 years	-	6.8	6.8	-	13.0	13.0	-	19.2	19.2
<b>Net borrowing (1)+ (2)- (3)</b>	<b>65.6</b>	<b>7.5</b>	<b>73.0</b>	<b>61.4</b>	<b>68.4</b>	<b>129.9</b>	<b>97.5</b>	<b>71.4</b>	<b>168.9</b>

Source: Financial Markets Department

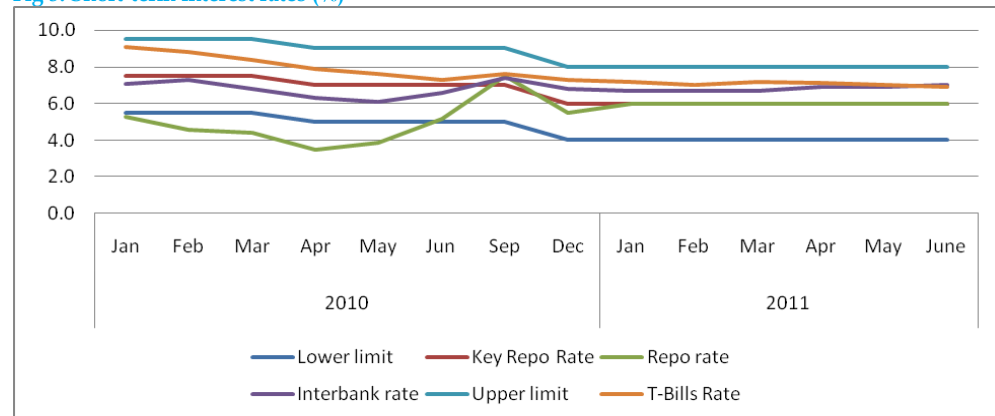
### III.4 INTEREST RATES DEVELOPMENTS

*Recent rising short term interest rates on money market.*

Money market interest rates have been relatively high during this first quarter of 2011. The repo rate remained at 6% since the beginning of this year, following the higher demand from the Central Bank to mop up excess liquidity for achieving the Reserve Money targets. As result, the increase on credit to private sector has been maintained in line with the annual Monetary Program as during the first half of the year, the outstanding amount increased by slightly higher than 12.7% against around 20% for the whole year.

However, BNR succeeded to avoid distortion in t-bills rate and the latter recorded a slight decrease and stood at 6.92% by June 10, 2011 from 7.3% in December 2010. In the meanwhile, the interbank rate has been increasing as it reached 7.0% in June 2011 from 6.7% in January 2011, but consistent with the banking system liquidity conditions as it remained within the interbank rates corridor.

Fig 5: Short-term interest rates (%)



Source: Financial Markets Department

Commercial bank’s deposit rates have been increasing since last year, but more significantly during the second quarter 2011, standing at 8.45% in June from 8.63% in May, 8.65% in April and 7.49% in March 2011. This trend in deposit rates is explained by the behavior of banks to remunerate deposits at higher rate to keep big depositors. On the other side, commercial banks lending interest rates stood at 17.03% in June 2011 after a decrease in the previous months. While had started to show some declining trends during the first quartet, higher level lending rates since the second quarter are mainly explained by higher demand from the Central Bank and the Government for mopping up excess liquidity and treasury needs respectively.

### III.5 EXCHANGE RATE DEVELOPMENTS

**Continuing stability of RWF against USD, while depreciating against EUR and GBP.**

The BNR continued to maintain a flexible exchange rate regime in 2011 only intervening at the margins of the market to smooth the volatility in the exchange market. For the first half of the year 2011, the Rwandan franc depreciated by 0.8% against USD. However, RWF significantly depreciated against both EUR and GBP by 10% and 7% respectively under the same period. This depreciation is followed by an appreciation of both EUR and GBP against USD on international forex market.

Further, against regional currencies, RWF appreciated considerably by 9%, 7% and 3% versus Kenyan, Tanzanian and Ugandan shillings respectively, while depreciating by 1% vis-à-vis Burundi franc between June 30, 2011 and December 2010.

Therefore, the Real Effective Exchange Rate (REER) slightly depreciated in May 2011 as the index stood at 80.04 from 78.23 in December 2010. This trend was consistent with the trend of Rwandan Franc against major currencies and was mainly due to the fact that most of our transactions are

concluded in US dollar.

During the first half 2011, the domestic foreign exchange market has been characterized by a higher demand compared with the same period of last year. An analysis of resources and expenditures indicates that domestic foreign exchange market there has been a shortage since early this year compared to the same period of last year. By end June 2011, BNR sold USD 133.2 million to banks against USD 102.4 million in the same period of 2010. Interbank foreign exchange market recorded a remarkable improvement with a volume of USD 27.4 against 14.4 million under the same period of 2010.

**IV. MONETARY POLICY ORIENTATION FOR THE THIRD QUARTER 2011**

**IV.1 ECONOMIC AND FINANCIAL ENVIRONMENT**

*Need for further support to lending to the economy, while closely monitor inflation developments.*

Economic growth is expected to be higher than 7.0% initially projected for 2011 reflecting a continuing economic recovery process from the 2009 financial crisis. After relatively higher inflationary pressures in April compared to the level of December 2010, the regained stabilization in inflation in the context of sustained economic performance provides room for easier monetary policy management. However, to avoid negative second round effects of persistent exogenous shocks from international commodity prices, it is important that the BNR continues to act in a timely manner by required policy response.

However, Rwanda will face challenging surged uncertainties in global economy due to international oil prices increases. This constitutes for Rwanda a serious threat to the price stability, due to high pass-through of oil prices in domestic prices.

Despite the expected inflation pressures and taking into account the current liquidity conditions in the banking system, the 2011 Monetary Program is projecting a strong recovery in credit to private sector growth to reach 19.7% in 2011 from 11.1% in 2010. This increase is consistent with the expected economic growth target, while avoiding the exacerbation of inflationary pressures.

**Table 4: Some key monetary indicators versus monetary program ( end period, in % change)**

	Dec 10 - June 11		Dec-10 - Dec
	Program	Actual	Program
<b>Net Foreign Assets/BNR</b>	<b>-5.7</b>	<b>-9.6</b>	<b>11.6</b>
<b>Net Domestic Assets/BNR</b>	<b>-12</b>	<b>19</b>	<b>9.7</b>
<i>of which Net credit to Government/BNR</i>	35.8	41.8	-2.7
<i>Commercial banks net</i>	28.2	38.6	19.1
<b><i>Credit to private sector</i></b>	<b>6.7</b>	<b>10.6<sup>(*)</sup></b>	<b>19.2</b>
Currency in circulation, out of the banking system	-0.3	4.0 <sup>(*)</sup>	3.1
Currency in circulation, out of BNR	1.1	9.6	8.7
Cash in vault, estimates	24.1	0.2 <sup>(*)</sup>	46
<b>Reserve Money</b>	<b>8</b>	<b>10.8</b>	<b>16</b>
Deposits (banking system)	7.1	9.1 <sup>(*)</sup>	17.8
<b><i>Broad Money (M3)<sup>(*)</sup></i></b>	<b>6</b>	<b>8.4<sup>(*)</sup></b>	<b>16</b>

Source: Statistics Department

## IV.2 WAY FORWARD

**U**nchanged policy rate at 6%, to be in force during the third quarter 2011.

Considering the current developments and outlook in economic fundamentals, the BNR Monetary Policy in the third quarter 2011 will remain accommodative to sustain lending to the economy consistent with the growth objective of above 7.0% in 2011. However, using high frequency economic and financial information, the BNR will continue regularly to assess and closely monitor the developments in external and domestic sources of inflation to ensure underlying inflationary pressures are well anchored.

Taking into consideration the current trend in inflation and its forecasts by September 2011 and beyond, the Central Bank maintained the KRR unchanged at 6%, to be in force during the third quarter 2011.

Therefore the interbank interest rates corridor remained ] 4-8[and the discount rate 10% (KRR+4%).

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